

**DEPARTMENT OF INSURANCE**

OFFICE OF COMMUNITY AND CONSTITUENT AFFAIRS

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## **California Organized Investment Network**

### **California Department of Insurance**

### **Action Plan**

*April 2001*

At the December 13, 2000, meeting of the California Organized Investment Network Advisory Board, board members were presented with an analysis of the COIN program conducted by three independent investment and financial experts: John R. Queen, Managing Director, Merrill Lynch Investment Managers; Daniel F. Sheehy, President/CEO, IMPACT Community Capital LLC; and Bob Taylor, Senior Vice President, Community Development, Wells Fargo Bank.

Furthermore, newly appointed Insurance Commissioner Harry Low attended the board meeting and asked board members for input on how to increase participation in the COIN program and make it more effective in its objective of facilitating insurance company investments in underserved, low-income communities.

As a result of that discussion and meetings with other interested parties, the Department of Insurance has developed a COIN action plan. These are actions the Department of Insurance will pursue to facilitate and encourage greater community economic investment by the insurance industry.

The major elements of the plan are:

- Commissioner Low taking an active role in promoting community investment by insurers
- Asking insurance companies to set voluntary goals for community investment
- Enhancing and expanding financial incentives for community investment
- Developing a program to publicly recognize and applaud insurance companies for making community investments

- Exploring a requirement for insurance companies to report annually on their community investments
- Making administrative enhancements to the COIN program

### ***Commissioner to actively support and promote community investing***

Commissioner Low has indicated that he is a strong supporter of community investment by insurers, that he wants to see a higher level of industry participation, and that he will take an active, personal role in promoting the program. Commissioner Low has met and will continue to meet with insurance industry officials to encourage insurance companies to make community investments. For example:

- Commissioner Low spoke to the Insurance Industry Charitable Fund (IICF) on February 1, 2001, about community investing and encouraged a higher level of industry participation. The IICF was created by the insurance industry in 1994 to make charitable donations to community and nonprofit organizations.
- Commissioner Low met with IMPACT Community Capital's board of directors on February 22, 2001, about COIN and the need for the insurance industry to increase its efforts and participation. IMPACT was formed in 1998 as an outgrowth of the COIN effort as an insurance industry investment organization committed to channeling resources into California's underserved communities.
- On March 19, 2001, Commissioner Low was the keynote luncheon speaker at the American Council of Life Insurers (ACLI) Investment Leadership Conference. Headquartered in Washington, D.C., ACLI represents over 400 life insurance companies operating in the United States. Their members have 73 percent of the life insurance in force in the United States, 82 percent of the pension business and 87 percent of the long-term care insurance business. Approximately 70 chief investment officers and other senior investment personnel from the largest national life insurance companies attended this event.

Commissioner Low will continue to personally encourage insurance companies to make COIN-type investments. The Commissioner believes businesses that receive financial benefits from doing business in a community should give something back to the community in the form of community investments. Insurers can serve important community economic needs while making a profit at the same time.

He also recognizes that underserved minority groups are the fastest growing demographic groups in California and that it makes good business sense to develop a positive business relationship with these fast growing markets. In other words, the insurance industry cannot afford to "not" invest in underserved, low-income communities.

Commissioner Low prefers a voluntary community investment program for the insurance industry because a voluntary program provides the industry with the investment flexibility, simplicity, and industry discretion that a mandatory program typically would not provide. He believes a mandatory program such as the federal Community Reinvestment Act for banks can be avoided if the voluntary COIN program is successful in raising the level of community investment by insurance companies.

The Department of Insurance continues to explore additional options for encouraging insurance industry investment in underserved, low-income communities, such as working with insurance industry trade organizations and using other forums and communications media.

### ***Setting community investment goals***

Commissioner Low believes that *every* insurance company doing business in California should make some type of investment in California's underserved, low-income communities, that there is simply no good reason for a company not to participate.

Therefore, the Commissioner will ask insurance companies to voluntarily set community investment goals. Recognizing that COIN is a voluntary program and that different types of insurance companies have different investment requirements and objectives, the Commissioner will ask all insurance companies doing business in California to set a voluntary goal for COIN-type investments.

Voluntary goals will provide insurance companies with the flexibility they need to design investment plans that fit their distinct needs and requirements. Anecdotal evidence indicates that companies that establish community investment goals usually discover that they can easily achieve and often exceed their stated goals.

### ***Enhancing financial incentives for community investments***

State Incentives. The Department of Insurance is sponsoring a legislative proposal (SB 409, Vincent) to extend and possibly expand the existing California Community Development Financial Institution (CDFI) Tax Credit program for another five years beyond its effective sunset date of December 31, 2001. When fully utilized, this effective incentive program results in five-to-one leveraging of the State's \$2 million annual investment into \$10 million per year of investment capital to provide economic development assistance in underserved, low-income California communities.

The current program was established in 1997 by the enactment of AB 1520 (Ch. 947, Statutes of 1997) sponsored by then-Assemblyman Edward Vincent. It provides for a 20 percent tax credit in the taxable year of the investment for zero-interest deposits or equity investments of \$50,000 or more (invested for a minimum of 60 months) into community development financial institutions certified by COIN. Effective January 1, 2000, AB 145 (Ch. 821, Statutes of 1999, Vincent) expanded the program to make insurers

eligible to make qualified deposits or equity investments in exchange for a premium tax credit. Without new legislation, this highly successful and worthwhile program will effectively end on December 31, 2001.

Federal Incentives. On December 15, 2000, Congress enacted the New Markets Tax Credit (NMTC) as part of the Community Renewal Tax Relief Act of 2000, which is designed to generate \$15 billion in new private sector equity investments by 2007 and spur business growth in low-income rural and urban communities. Investors that make investments in community development entities will be eligible for tax credits, starting in 2001. This exciting new federal program has the potential to bring billions of dollars of new capital to the CDFI industry. The U.S. Treasury Department is expected to issue regulations to specify how to apply for the tax credit, how to become a Community Development Entity (CDE), and the competitive criteria upon which applications will be evaluated.

The Department of Insurance COIN Office will be working with CDFIs, CDFI trade associations, and other interested parties to explore ways that this new federal program can be utilized as an additional financial incentive for insurers to increase their participation in COIN.

### ***Public recognition of insurer community investments***

The Department of Insurance is developing a program to publicly recognize insurance companies for making community investments. Recognition may take a variety of forms. For example, the Department of Insurance can issue news releases to announce such investments by insurance companies.

The Department is also exploring an annual award to recognize the top insurance companies that make COIN-type investments. Another possibility is the development of an annual rating system or “report card” for insurance company community investments. Good publicity for an insurance company that participates in assisting underserved low-income communities will hopefully serve as an incentive for other companies to invest.

### ***Require annual reporting of community investments***

The Department is considering whether and in what manner it can require insurance companies to annually report on their community investments. If provided with such information, the Department of Insurance could produce a report about insurance industry investment in underserved communities. The public and consumers could then use the information to evaluate the performance of various companies, which may result in public relations and marketing benefits for those companies that make community development investments.

## ***Administrative program enhancements to COIN***

One possibility for getting more insurers to make community investments is to provide insurers with a greater number and variety of potential community investment opportunities. Therefore, COIN plans to streamline the administrative process by focusing more on working with community organizations, COIN Advisory Board members, community advocates, and other interested parties to identify as many community investment options as possible for insurance industry consideration and focus less on evaluating potential investments.

The goal is to make it easier for community organizations and COIN to communicate community investment needs and opportunities to insurers. COIN wants to be as helpful as possible to insurers by serving as a clearinghouse of community investment needs and opportunities and by doing a better job of communicating and informing insurers of the wide range of community investment options available to them.

This will require assistance from COIN Advisory Board members, community organizations, community advocates, and other interested parties to develop simple but effective mechanisms for identifying the greatest possible range of potential community investment – and to provide COIN with information in a form that can be more efficiently and effectively shared with insurers.

Furthermore, the Department of Insurance will enhance COIN's information technology and computerized database capabilities to better support COIN's program mission.